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May 26, 2005

BY OVERNIGHT COURIER AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following information requests of the Department of Telecommunications and Energy:

DTE-07-04 DTE-07-05 DTE-07-08 DTE-07-09 DTE-07-10

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Caroline O'Brien Bulger, Esq., Hearing Officer (1 copy)
 A. John Sullivan, DTE (7 copies)
 Andreas Thanos, Ass't Director, Gas Division
 Alexander Cochis, Assistant Attorney General (4 copies)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SEVENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: June xx, 2005

Responsible: Danny Cote, General Manager

DTE-7-4 Please provide the proposed shareholders' annualized contribution towards GTI related costs.

Response: Since benefits from the proposed R&D will accrue almost entirely to Bay State's customers, Bay State does not propose any shareholder annual contribution to GTI.

However, for field tests in its service territory, Bay State will provide in-kind co-funding to test the technology. Bay State will also provide expenses and staff time to attend and manage OTD programs.

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RESPONSE OF BAY STATE GAS COMPANY TO THE
SEVENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: May 26, 2005

Responsible: Danny G. Cote, General Manager
Stephen H. Bryant, President

DTE-7-5 Regarding the proposed GTI contribution (Exh. BSG/DGC-1), please explain whether the benefits discussed in the Cote testimony are actual benefits to Bay State's Massachusetts end-users or to the Company's shareholders. In the response, discuss whether the alleged technological advancements when implemented will lead to an immediate decrease in distribution rates or an immediate increase in the Company's profits.

Response: Actual distribution operating and maintenance (O&M) expenses are recoverable from Bay State's customers, up to the maximum level allowed. If O&M expenses are reduced due to advanced technology in the test year of the next rate case, then savings are passed along directly to our customers, in that year and all future years.

It is true that, at some level, the company can keep the savings in O&M that occur *between* rate cases. This is ameliorated with proposed performance-based rates, where productivity increases over inflation in O&M costs are expected. In this case, advanced technology is required to ensure that productivity increases occur as expected. If any Company operating under performance-based regulation has productivity increases over and above that expected, then the savings are shared with customers.

Increases in safety, deliverability, and system integrity and reliability that accrue from the implementation of advanced technology inure to the benefit of Bay State's customers (and other LDC customers) in ways that have significant non-price advantage, but are arguably more important than a simple analysis of dollar-based savings.

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D. T. E. 05-27

Date: June xx, 2005

Responsible:

DTE-7-8 Please provide analysis demonstrating that absent Bay State's contribution the GTI developed technology discussed in Exh. BSG/DGC-1 will not develop.

Response: The Operations Technology Development (OTD) Program is unique in that each and every local distribution company (LDC), including Bay State, places every dollar it invests in specific projects of its choice (with Department oversight). There are specific issues related to rocky soil, bare steel, and cast iron that are of particular interest to Massachusetts. No other LDC's in Massachusetts currently fund the OTD Program. However, as of this point, no New England ratepayer dollars are being invested in OTD either.

If Bay State's rates do not support this R&D, there is little reason to believe that non-Massachusetts, non-New England LDC's will invest in the R&D projects of benefit to New England. In fact there would be little economic reason for them to do so.

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Responsible: Danny Cote, General Manager

DTE-7-9 Once GTI develops technology that is beneficial to Bay State's end users, will the Company be required to pay additional funds to acquire it?

Response: Based on our information from GTI, Bay State Gas and other OTD investors will be able to acquire the technology royalty-free. Of course, if the technology is hardware, Bay State would have to purchase or lease the hardware from the entity that brings the product to market.

If the technology is software or know-how, it will be cost-free to Bay State and its customers.

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Responsible:

DTE-7-10 Please refer to the Department's decision in Boston Gas Company, D.T.E. 03-41, at 428-430 (2003). In rejecting Boston Gas Company's proposal, the Department noted that:

- (1) the Boston Gas proposal claimed it would benefits consumers who were asked to carry the financial burden without offering proof of this claim;
- (2) although there is a plethora of potential beneficiaries, only gas consumers provide the funding; and
- (3) since it was the only LDC proposing the surcharge, only its customers would be paying for R&D. Furthermore, the Department noted that its reluctance to approve the collection and disbursement of R&D funds prior to a review of a detailed proposal outlining the associated costs and benefits to the particular customers who are paying for the surcharge.

Discuss how, in the instant filing, Bay State has addressed all of the concerns summarized above.

Response: As part of Dan Cote's testimony benefits have been discussed, and in DTE 7-3, 7-5, 7-6, and 7-7, benefits of current and proposed R&D have been quantified.

For the distribution R&D proposed, there are not a "plethora" or beneficiaries. The gas consumers will benefit from O&M cost reduction, increased safety, enhanced deliverability, and increased system deliverability. Between rate cases, Bay State Gas may be able to keep some of the O&M savings, but this will be ameliorated with proposed performance based rates, where productivity-based savings are built into the rate structure.

Why should Bay State Gas "go it alone" in funding R&D in Massachusetts? Bay State's strategic plan is directly tied into modernizing its gas distribution system. In order to ensure that that occurs, advanced technology of the type GTI's OTD Program is developing will be required. Thus, it is appropriate for Bay State Gas to invest in this technology, so its customers can gain the productivity benefits that it will produce. Further, Bay State has reason to believe, upon a positive DTE decision, that other LDC's will come forward to propose investment in this R&D.